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1989

Department of the Treasury
Internal Revenue Service

Instructions for Form 2106

Employee Business Expenses

Paperwork Reduction Act Notice

We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	2 hrs., 17 min.
Learning about the law or the form	19 min.
Preparing the form	1 hr., 19 min.
Copying, assembling, and sending the form to IRS	35 min.

If you have comments concerning the accuracy of this time estimate or suggestions for making this form more simple, we would be happy to hear from you. You can write to the IRS or the Office of Management and Budget at the addresses listed in the instructions for Form 1040.

A Change You Should Note

New rules apply to the tax treatment of employee business expenses that were reimbursed by your employer or a third party under a reimbursement or other expense allowance arrangement. Lines 7 and 8 were revised to reflect these new rules.

Items To Note

- If your employer provided a vehicle for your business use and included 100% of its fair rental value on your Form W-2, see the instructions for line 35, Part II. You may deduct a portion of the fair rental value if you use your actual expenses to figure your vehicle expense deduction.
- If a vehicle was used more than 50% for business in the year it was placed in service, and used 50% or less in a later year, part of the depreciation, Section 179 deduction, and investment credit may have to be recaptured. Figure the depreciation and Section 179 deduction recapture on Form 4797, and the investment credit recapture on Form 4255.

Who Must File

File this form if you are an employee and are deducting expenses attributable to your job.

Exceptions: Do not complete this form if either of the following applies:

- You account to your employer by means of an account book, diary, or similar statement and your business expenses equal your reimbursement. If this exception applies, do not deduct the expenses or report the reimbursement as income.
- You are not claiming job expenses for travel, transportation, meals or entertainment, and you were not reimbursed for any of the other expenses you do claim. (Examples of these other expenses are educational expenses, uniforms, home office, and union dues.) If this exception applies, list the expenses directly on line 20 of Schedule A (Form 1040).

Qualified Performing Artists

If you are a qualified performing artist, your performing-arts- related business expenses are deductible whether or not you itemize deductions on Schedule A. The expenses are not subject to the 2% limit that applies to most other employee business expenses. You must use Form 2106, but see the special instructions for Part I, line 13.

A qualified performing artist is an individual who (1) performed services in the performing arts as an employee for at least 2 employers in the tax year, (2) had allowable business expenses attributable to the performing arts of more than 10% of gross income from the performing arts, and (3) had adjusted gross income of $16,000 or less before deducting expenses as a performing artist.

Get **Pub. 529,** Miscellaneous Deductions, for more information.

Handicapped Employees Impairment-Related Work Expenses

If you are physically or mentally handicapped, your impairment-related work expenses are not subject to the 2% limit that applies to most other employee business expenses. If you claim these impairment-related expenses, use Form 2106, but see the special instructions for Part I, line 13.

Impairment-related work expenses are the allowable expenses of a physically or mentally handicapped individual for attendant care at his or her place of employment. They also include other expenses in connection with the place of employment which enable the employee to work.

Get **Pub. 907,** Tax Information for Handicapped and Disabled Individuals, for more information.

Rural Mail Carriers

If you were an employee of the U.S. Postal Service in 1989 and use the standard mileage rate to figure your vehicle expense, you may be entitled to a higher standard mileage rate of 38½¢ per mile. This higher rate applies if you (1) used your own vehicle to collect and deliver mail on a rural route, and (2) did not claim depreciation for the vehicle for any tax year beginning after December 31, 1987.

To claim the higher standard mileage rate, you must fill out Part I and sections A and B of Part II. Be sure to read the special instructions for lines 24 and 26. If you are also claiming the standard mileage rate for mileage driven in another business activity, you must figure the deduction for that mileage on a separate Form 2106.

Get **Pub. 917**, Business Use of a Car, for more information.

If you are a qualified performing artist, an employee with impairment-related work expenses, or a rural mail carrier, indicate this in the occupation box at the top of Form 2106.

Line-by-Line Instructions

Part I

Line 2.—Enter parking fees, etc., that did not involve overnight travel. Do not include transportation expenses for commuting to and from work.

Line 4.—Enter any other job-related expenses not listed on any other line on this form. Include expenses for business gifts, education (tuition and books), home office, trade publications, etc. If you are deducting home office expense, get **Pub. 587,** Business Use of Your Home, for special instructions on how to report your expenses.

Do not include expenses for meals and entertainment, taxes, or interest. Interest expense and taxes you pay may be deductible on Schedule A (Form 1040).

Line 5.—Enter your allowable meals and entertainment expense. Include meals while away from your tax home overnight and other business meals and entertainment. Instead of actual cost, you may include your expenses for meals while away from your tax home overnight at the maximum rate authorized to be paid by the Federal government for meals and incidental expenses in the locality where the travel was performed. For more information, including the maximum rate, get **Pub. 463,** Travel, Entertainment, and Gift Expenses.

Line 7.—Enter the amounts your employer (or third party) gave you for expenses shown in Step 1 that were NOT reported to you anywhere on your Form W-2. See the line 8 instructions for amounts separately identified on your Form W-2.

Generally, when your employer pays for your expenses, the payments should not be on your Form W-2 if you (1) accounted to your employer for the expenses, AND (2) were required to return, and did return, any payments not spent for business expenses.

Accounting to your employer means that you gave your employer documentary evidence and an account book, diary, or similar statement to verify the amount, time, place, and business purpose of each expense. You are also treated as having accounted for your expenses if your employer gave you a fixed allowance that is similar in form to an allowance specified by the Federal government and you verified the time, place, and business purpose of each expense. An example of such an allowance is the standard mileage rate for auto expenses or the government per diem rate for travel away from home. See Pub. 463 for more details.

If your employer paid you a single amount which covers both meals and entertainment, as well as other business expenses, you must allocate your reimbursement. See **Allocating Your Reimbursement**, on page 2.

Line 8.—Enter the amount your employer gave you for expenses shown in Step 1 that were **separately identified** to you as employee business expenses on Form W-2. "Separately identified" means that the amounts were not reported in Box 10 of your W-2 as wages, but rather in another box on your W-2. For example, if Box 16 of your W-2 has an amount labeled "EBE" (for employee business expenses), enter that amount on line 8.

Your employer should have separately identified an amount as employee business expenses if (1) your employer paid you a fixed allowance that is similar in form to an allowance specified by the Federal government (for example, per diem for meals and lodging costs or a standard mileage allowance for use of your vehicle), AND (2) the amount exceeded the government specified rates. The separately identified amount should be the amount that is equal to the government specified rate. (The amount in excess of the government rate should be included in your wages in Box 10 of your Form W-2.)

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Allocating Your Reimbursement. If your employer paid you a single amount which covers both meals and entertainment, as well as other business expenses, you must allocate the reimbursement so that you know how much to enter in Column A and Column B of line 7 (or line 8).

Allocate your reimbursement on line 7 (or line 8) as follows: Divide your meal and entertainment expenses (line 5, Column B) by your total expenses (line 6, Column A plus Column B). Multiply that decimal by your reimbursement. The result is the amount of reimbursement attributable to your meals. Enter this amount in Column B of line 7 (or line 8). Subtract it from your total reimbursement to figure how much to enter in Column A.

Example. Assume your employer paid you an expense allowance of $5,000 during 1989. You actually spent $6,500 during the year ($2,000 for meals and $4,500 for automobile expenses.) First, divide your meal expenses by your total expenses ($2,000/$6,500). The result is .31. Multiply this decimal by your reimbursement (.31 x $5,000). The result is $1,550 (the amount of reimbursement attributable to your meals). Enter this amount on line 7, Column B. Enter the remainder of the reimbursement ($5,000 – $1,550) or $3,450 in Column A.

Line 10.—If line 10, Column A is less than zero, you have an excess reimbursement that must be reported as income. This can happen, for example, if you can deduct only 11¢ per mile because your vehicle is fully depreciated, but your employer reimbursed you more than 11¢ per mile. If the amount on line 10 is less than zero, include it in wages on Form 1040, line 7.

Line 13.—If you are a **qualified performing artist** (defined on page 1), include your performing-arts-related expenses in the total on Form 1040, line 30. Write "Form 2106" and the amount in the space to the left of line 30.

If you are a **handicapped employee** claiming impairment-related work expenses (defined on page 1), enter the line 13 amount on Schedule A, line 25, instead of on Schedule A, line 20.

Part II

You **must** complete this part, including questions 21 through 23b, if you are claiming a deduction for vehicle expenses.

If you used two vehicles for business during the year, use a separate column for each vehicle in Sections A and C. If you used more than two, attach a computation following the format in Sections A, C, and D.

Line 14.—Date placed in service is the date you first start using your car for any purpose, whether for personal or business use. For example, if you first start using a car for personal use in February and convert it to business use in October, the car is considered placed in service in February, even though you cannot start depreciating it until October.

Line 15.—Enter the total mileage each vehicle was driven for all purposes during the year.

Caution: *If you changed your job during the year to one in which you started using a vehicle, enter only the total mileage for the months the vehicle was used in your job. After entering your business miles on line 16, figure your percentage of business use by dividing line 16 by line 15. Multiply that percentage by the number of months the car was used in your job, and divide the result by 12. Enter this percentage on line 17.*

Line 16.—Do not include commuting mileage on this line; it is not business mileage.

Line 18.—Enter your average daily round trip commuting distance. If you go to a different business location each day, figure the average. Commuting mileage is the mileage from home to your first stop and from your last stop to home even if you do not go to the same location each day. This rule applies whether you are self-employed or not.

Line 19.—You may figure your total commuting mileage by multiplying line 18 by the number of days during the year you used each vehicle to go to and from work.

Section B—Standard mileage rate.—You may use the standard mileage rate instead of actual expenses to figure the deductible costs of operating a passenger car, including a van, pick-up, or panel truck. If you want to use the standard mileage rate, you must do so in the first year you place your car in service. In later years you may deduct actual expenses, but you may not use a depreciation method other than straight line. If you do not use the standard mileage rate in the first year, you may not use it for that car for any subsequent year.

You may also be able to deduct interest on car loans and state and local personal property taxes if you itemize your deductions on Schedule A (Form 1040).

If you listed more than one vehicle on line 16, see Pub. 917.

Line 24.—If you are a **rural mail carrier** (defined on page 1), enter the number of miles from line 16 on line 24 even if it is more than 15,000 miles.

Line 26.—If your vehicle is fully depreciated, multiply line 24 by 11¢ (.11) a mile instead of 25½¢. A vehicle is considered fully depreciated after 60,000 miles of business use at the maximum standard mileage rate. If you are a **rural mail carrier** (defined on page 1), multiply the amount on line 24 by 38¼¢ (.3825) even if the vehicle is fully depreciated.

Line 29.—Enter your total annual expenses for gasoline, oil, repairs, insurance, tires, license plates, or similar items. Do not include interest expense or state and local personal property taxes you paid. These expenses may be deductible if you itemize your deductions on Schedule A (Form 1040).

Line 30.—If you rented or leased a vehicle during the year instead of using one you own, enter the cost of renting. However, you may have to include an amount in income. See Pub. 917. Also, include on this line any temporary vehicle rentals, such as when your car was being repaired.

Line 35.—If during the year your employer provided a vehicle for your business use, and included 100% of its fair rental value on your Form W-2, multiply the fair rental value by the percentage on line 17 and enter the result on line 35. Also include the result in the total on Form 1040, line 30. Write "Form 2106" and the amount in the space to the left of line 30. If less than the full rental value was included on your W-2, such as where your employer reduced the value for business use based on your records, do not include any amount on this line, but see Pub. 917.

Section D.—Depreciation

Depreciation is an amount you can deduct over a certain number of years. In some cases, you may elect to expense, under Internal Revenue Code Section 179, part of your vehicle in the year of purchase. For more details, get **Pub. 534,** Depreciation.

Limitations.—For purposes of figuring the amounts to enter in columns (d), (e), and (f):

- *Vehicles placed in service after December 31, 1988.*—Depreciation plus Section 179 deduction is limited to $2,660 the first year, multiplied by line 17.
- *Vehicles placed in service after December 31, 1986, and before January 1, 1989.*—Depreciation plus Section 179 deduction is limited to $2,560 the first year, $4,100 for the second year, and $2,540 for the third year, multiplied by line 17.
- *Vehicles placed in service after April 2, 1985, and before January 1, 1987.*—Depreciation is limited to $4,800 the second and third years, multiplied by line 17.
- *Vehicles placed in service after June 18, 1984, and before April 3, 1985.*—Depreciation is limited to $6,200 ($6,000 if placed in service before January 1, 1985) multiplied by line 17.

Column (a).—Enter the vehicle's actual cost or other basis. If you traded in your vehicle, see Pub. 917 for the computation of basis. Reduce your basis by any diesel fuel tax credit. For any vehicle purchased after December 31, 1986, add to basis any sales tax paid on the vehicle.

Column (b).—Multiply column (a) by the percentage on line 17. From that result, subtract any Section 179 deduction.

Column (c).— Use one of the following methods for figuring depreciation.

- *Vehicles placed in service after December 31, 1986.*—

Method 1. Enter "MACRS" and "20%" the first year of service, except if placed in service in the last 3 months of the year. In that case, enter "5%." Enter "MACRS" and "32%" for the second year of service, and "19.2%" for the third.

Method 2. Straight-Line.—You can elect this method, and are **required** to use it if line 17 shows 50% or less. Enter "SL" and "10%" the first year of service except if placed in service in the last 3 months of the year. In that case, enter "SL" and "2½%." For the second and third years of service enter "SL" and "20%."

- *Vehicles placed in service after June 18, 1984, and before January 1, 1987.*—

Method 1. Enter "ACRS" and "38%" the second year of service, and "37%" the third.

Method 2. Enter "SL" (for straight-line) and 3, 5, or 12 years.

Method 3. You must use this method if line 17 shows 50% or less. Enter "SL" (for straight-line) and "20%" the second, third, fourth, and fifth years of service. Enter 10% for the sixth year.

Column (d).—Multiply column (b) by column (c) unless you used Method 2 above (before 1/1/87). In that case, divide column (b) by column (c), and if this is the first or last year of depreciating the vehicle, divide the result by 2.

Column (e).—If 1989 is the first year the vehicle was placed in service, and you are taking a deduction under Section 179, enter the cost multiplied by line 17, but not more than $2,660 multiplied by line 17. Enter in column (e) no more than the excess of your income over your other deductions from your trade or business. If line 17 shows 50% or less, enter zero.

Column (f).—Add columns (d) and (e), but do not enter more than the amount listed under "Limitations" above. If during the year you sold or exchanged your vehicle that was placed in service before January 1, 1987, enter zero in column (f) for that vehicle.

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